

State of Play



11 February 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update.

Vaccination programme gathers momentum despite poor weather

With just over 12.6 million people having received a first jab (as at 9 February), the UK's vaccination programme is on track to meet the UK Government's target of delivering a first dose to the elderly and most vulnerable by the middle of February. Whilst the number having received both injections is just above 500,000, the plan remains to complete the second doses for this cohort in the next few weeks. Those over 70 who have not yet received their injection have been asked to contact the NHS to arrange their appointments. So far take up for the vaccine in the UK is stronger than had been expected with over 80's around 91% and over 70's age group at 95% take-up.

The impact of lockdown continues with infection rates down by 26% in the last week, patients admitted to hospital down by 22% and thankfully, those having tested positive for the virus and have died has fallen by just over 25%. The economic impact of the second and third lockdowns are not expected to be as severe as last spring but businesses in certain sectors are expressing increasing alarm on their prospects for survival if measures are not eased soon. At the moment the UK Government line appears to be to maintain restrictions until the vaccination programme extends to include those over 50.

In response to the threat of different strains entering the UK the government have introduced a new enhanced testing regime for international travellers arriving into England from 15 February. Anyone arriving into the country must book two Polymerase Chain Reaction (PCR) tests to take on days two and eight of their quarantine with any positive result resulting in a genomic sequencing to confirm whether they have a variant of concern. There are 30 countries which remain on the 'red list' where travellers will have to pay up to £1,750 for hotel quarantine,

transport and testing, and there will be fines of up to £10,000 and 10-year jail sentences for those who break travel rules.

Impeachment 2.0

Donald Trump becomes the first President in US history to go on trial after leaving office. Whilst he is not expected to attend in person, he faces a single charge of 'incitement of insurrection' relating to the rally held before the storming of the Capitol Building on 6 January. The proceedings began on Tuesday 9 February, chaired by Democrat Patrick Leahy, with a four hour debate split on whether the trial is constitutional or not. After the debate the Senate voted 56-44 in favour of continuing with the trial but given that it requires at least 17 Republican Senators to vote for impeachment to reach the two thirds majority required it is highly probable that Donald Trump will be acquitted. If Donald Trump was found guilty he faces being banned from ever holding public office again. Both sides of the political divide favour a quick trial against the backdrop of President Joe Biden's efforts to agree a pandemic relief package. Commentators are expecting a final vote in the Senate as soon as next Monday (15 February).

Bull market continues for Bitcoin

Bitcoin is back in the headlines following an announcement from Elon Musk, the CEO of Tesla, that the company has made a decision to diversify its cash reserves and sink \$1.5bn into Bitcoin. The price of Bitcoin hit a new high of \$48,000 after a buying surge directly following his statement. He also said that the company would accept the digital currency as a means to pay for their electric cars and felt that Tesla would not be alone in making this move, hinting that Bitcoin may in time become a mainstream currency. In October last year, for example, the online payment service, PayPal, announced that it would be allowing its customers to buy and sell Bitcoin.

Despite the backing of organisations like Tesla and PayPal, Bitcoin remains an unregulated investment - the Financial Conduct Authority (FCA) banned the sale, marketing and distribution of Derivatives and Exchange-Traded Notes (ETN's) linked to cryptocurrencies to retail clients. The reason is they are considered ill-suited for retail investors by regulators, both in the UK and abroad, as there is no reliable basis for valuation, they suffer from at times extreme volatility and have been subject previously to market abuse and financial crime in the secondary market through cyber theft. Regulators have also expressed a concern that retail investors have inadequate understanding and so far they feel the thesis or justification for inclusion within an investment portfolio or investment solution is unproven and unnecessary. These features mean retail investors might suffer harm from sudden and unexpected losses if they invest in these products.

Bitcoin, first started trading at \$0.08 in July 2010, meaning that if you had bought \$100 worth back then it would now be worth \$60m based on today's value! In total there will only ever be 21 million Bitcoin. This means it has some scarcity unlike normal currency which can be created by central banks around the world. Although Bitcoin has a limited supply, that doesn't mean that all 21 million of those coins are available to purchase - the current supply is just over 18.4 million.

Surprisingly, even though 18.4 million Bitcoin were mined in just over 10 years, it is estimated it will take another 120 years to mine the remaining 2.6 million. The number of Bitcoin available also depends on the number of sellers versus buyers. During the last bear market, investors sold Bitcoin en masse and more coins were available to purchase. During the last bull market, investors bought and held Bitcoin which reduced the available supply. If demand remains high, then prices continue to increase.

Bitcoin - the basics

Bitcoin, often described as a crypto currency, was the first successfully launched cryptoasset, that today is the largest cryptoasset in the world. You can use it to buy products and services, but currently not many shops accept Bitcoin yet. It is the first decentralised peer-to-peer payment network that is powered by its users with no central authority or middlemen.

It was invented and implemented by the (presumed pseudonymous) *Satoshi Nakamoto* in 2009. Each Bitcoin is basically a computer file which is stored in a 'digital wallet' app on a smartphone or computer. People can send Bitcoins (or part of one) to your digital wallet, and you can send Bitcoins to other people. Every single transaction is recorded in a public list called the blockchain.

Whilst not a regulated investment, since Bitcoin started trading just over 10 years ago it has suffered from wild fluctuations in price and market manipulation. Clearly its value, like other assets, are subject to supply and demand, but very high volatility remains depending on the number of buyers and sellers at any one time driven by popularity or social media channels.

Market update

Following a round of positive earnings announcements from some of the FAANG's (Facebook, Amazon, Apple, Netflix and Google) markets drove higher last week in anticipation that the US stimulus package is likely to be agreed this week with the NASDAQ-100 Index up 5%. In addition the strong progress on vaccinations and the prospect of economies reopening saw most major markets end last week in positive territory. Much will depend on the success of the vaccination programme and the job retention schemes which aim to support the link between employee and employer. The economic data due out later this week and next is expected to show a deterioration caused by the latest round of national lockdowns and the markets remain sensitive but optimistic.

Government bond yields continue to creep ever upwards despite media coverage on negative interest rates potentially being used by the Bank of England. The rise in yields has seen a fall in UK Government Bond investment returns since the start of the year. Whilst the Bank Governor, Andrew Bailey, has expressed concerns about using them given their chequered history, he has asked banks to prepare their systems in case they decided later in the year to go negative. Markets remain concerned about the potential spike in inflation when economies reopen and some of the huge build up in savings is spent in the wider economy as people emerge from lockdowns.

Brent Crude, the global benchmark for oil, reached \$60 a barrel for the first time in more than a year having almost doubled in price since the start of November 2020. Meanwhile, Saudi Arabia's decision to unilaterally cut output by 1 million barrels a day in February and March is seen as helping to keep supplies in check and support the latest rise in price.

Find out more

Are you up to date on our latest investment insights and market news? You can read them or tune in [here](#).

Note: Data as at 10 February 2021.



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